AmerenCIPS Exhibit No. 2.0

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 03-0696

DIRECT TESTIMONY

OF

JULIANNE J. HEINS

Submitted on Behalf

Of

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY

d/b/a AmerenCIPS

April 2004

****Denotes Highly Confidential Information****

NP

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 03-0696

DIRECT TESTIMONY OF JULIANNE J. HEINS

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY
d/b/a AmerenCIPS

Q. Please state your name and business address.

A. My name is Julianne J. Heins. My business address is 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. By whom are you employed and in what capacity?

A. I am employed as a Natural Gas Supply and Transportation Director in the Natural Gas Supply and Transportation Department of AmerenEnergy Fuels and Services Company (AFS).

Q. Please explain the relationship between AFS and Central Illinois Public Service Company.

A. AFS provides the fuel and natural gas supply and management services for all affiliates of Ameren Corporation. The Natural Gas Supply and Transportation Department of AFS manages all of the gas supply business activities for Central Illinois Public Service Company d/b/a AmerenCIPS (AmerenCIPS or Company), Central Illinois Light Company d/b/a AmerenCILCO (AmerenCILCO), and Union Electric Company d/b/a AmerenUE (AmerenUE). It is in this capacity that I am testifying on behalf of AmerenCIPS.

Q. Please describe your educational background.

A. I received a Master of Business Administration from Washington University in 1992 and a Bachelor of Arts Degree in Economics from the University of Tennessee in 1981.

Q. Please describe your pertinent employment history.

A. In September 1998, I joined Ameren Services Company as a Gas Supply Executive. My primary responsibility as a Gas Supply Executive was to obtain reliable and economical gas supply, transportation, and storage services for AmerenCIPS' and AmerenUE's distribution systems served by Panhandle Eastern Pipe Line Company (PEPL) and Missouri Pipeline Company. I was promoted to my current position of Gas Supply and Transportation Director for AmerenEnergy Fuels and Services Company on November 1, 2000. My responsibilities as a Gas Supply and Transportation Director include managing and overseeing the daily operations and business activities related to providing gas supply to Ameren's utility companies located in Illinois – AmerenCIPS, AmerenCILCO, and the Alton, Illinois service territory served by AmerenUE. Prior to joining Ameren, I was employed by two interstate natural gas pipelines, Mississippi River Transmission Corporation (MRT) and Natural Gas Pipeline Company of America (NGPL).

Q. Are you familiar with the subject matter of this proceeding?

A. Yes, I am. This docket is the Commission's annual reconciliation proceeding relating to AmerenCIPS' Illinois Uniform Purchased Gas Adjustment Clause (PGA). It was established for the purpose of reviewing the Company's gas

procurement activities under its PGA for the twelve-month period ending on December 31, 2003.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to provide a description of the gas procurement activities performed for the AmerenCIPS gas utility system.

Q. Please describe AmerenCIPS' gas system in Illinois.

A. The Company's gas distribution system serves approximately 169,000 gas customers in 267 communities in south central Illinois. The system has over thirty (30) separate distribution systems, each with interconnections (delivery points) on one or more interstate pipelines. The Company's customer load requirements are highly weather sensitive, with sharp variations in demand occurring during the peak winter season. During 2003, AmerenCIPS' gas distribution system was directly connected to six interstate pipelines, all of which are regulated by the Federal Energy Regulatory Commission (FERC): PEPL, Texas Eastern Transmission L.P. (TETCO), Trunkline Gas Company (Trunkline), NGPL, Texas Gas Transmission (Texas Gas), and Midwestern Gas Transmission Company (Midwestern). The FERC governs the maximum and minimum rates that the interstate pipelines are allowed to charge their transportation and storage customers such as AmerenCIPS. The Company's gas system is also connected to two other Illinois gas utilities: Northern Illinois Gas Company and AmerenCILCO.

AmerenCIPS purchases the majority of its gas supply from major gas producers, independent gas producers, gatherers, and marketers, and transports the gas through the six interstate pipelines. The Company also purchases a very

small amount of natural gas produced in local gas fields in Illinois. AmerenCIPS purchased gas from **___** native Illinois gas producers who produced approximately **___** Mcf per day during 2003. AmerenCIPS owns and operates three gas storage reservoirs in Illinois: Ashmore, Sciota, and Johnston City, all of which are connected directly to the Company's distribution systems. A fourth storage reservoir, Belle Gent, was taken out of service during the latter part of 2003 as a result of the Commission's ruling in the Company's most recent natural gas rate case, ICC Docket No. 03-0008. In addition, AmerenCIPS utilizes storage capacity leased from interstate pipelines, and held five storage service agreements with five interstate pipelines for a total working capacity of 9,270,648 MMBtu. The Company also operates a propane-air peaking facility at Quincy, Illinois.

Q. Ms. Heins, would you please describe the Company's general purchasing policy for acquiring natural gas supply and transportation and storage capacity?

A. AmerenCIPS' natural gas supply and capacity acquisition policy is essentially a product of its utility obligation to serve. As a regulated public utility, the Company is obligated to provide natural gas service to all present and future customers in its service area; it is required to meet changes in its customers' demand for gas, without regard to the cause; and it is responsible for providing reliable service at reasonable cost. Each gas purchasing decision made on behalf of the Company is directed at satisfying this obligation to serve in the most economic way.

Q. Would you please explain the general gas supply portfolio strategies utilized by the Company to provide reliable service to its customers at a reasonable cost?

A. AmerenCIPS continually examines its strategies to diversify its pipeline capacity and supply sources to meet its customers' requirements for natural gas at the lowest reasonable cost. **_____
_____
_____
_____
_____
_____
_____
_____
_____**

For physical supply, **_____
_____
_____
_____
_____
_____
_____** The objective is to create a portfolio that mitigates price volatility for the sales customers, reduces natural gas supply acquisition risk, enhances system reliability while maintaining flexibility to manage load

variations, and separates physical delivery and financial exposure. **_____ _____ _____ _____**

Q. Would you please elaborate on the Company's 2003 contractual activities incorporating the general capacity and supply strategies previously discussed?

A. Attached to this testimony is Schedule JJH-CIP-1 that describes each transportation and storage agreement held by AmerenCIPS during the reconciliation period. **_____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____

_____

_____**

During 2003, AmerenCIPS held a total of twelve firm transportation agreements with its interstate pipeline suppliers: three with PEPL, three with Trunkline, two with TETCO, one with NGPL, two with Texas Gas, and one with Midwestern. In addition to these firm transportation agreements, AmerenCIPS also had under contract five firm storage service arrangements, all providing for "No-Notice" storage services. The Company held one storage agreement on each of the interstate pipelines, except for Midwestern on which AmerenCIPS held no storage. "No-Notice" storage services permit injections or withdrawals throughout the year without requiring nominations, and are used by AmerenCIPS to balance distribution system demand with interstate pipeline deliveries and on-system storage operations.

**_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____**

Q What steps has AmerenCIPS taken to minimize its pipeline capacity costs during the reconciliation period?

A. In addition to purchasing only the level of firm capacity necessary to meet the needs of its sales customers, AmerenCIPS aggressively negotiates capacity discounts from pipeline suppliers. **_____

_____

_____

_____** The Company also released capacity during 2003 on the PEPL and Trunkline systems, which resulted in total revenues of **_____**. The revenues from the capacity releases were returned to the AmerenCIPS sales gas customers as credits to the transportation charge component within the PGA mechanism.

Q. How does AmerenCIPS determine the appropriate level of capacity resources required to meet the needs of its firm customers?

A. To properly design the natural gas supply resources it requires, the Company conducts a demand study to determine the load profiles for the Company's service areas. This demand study utilizes statistical tools to analyze the relationship between historical temperatures and metered volume data to develop a regression model to forecast daily demands. The demand study is routinely updated to capture changes in demand caused by customer growth, customer loss, conversions to transportation service, increases in appliance efficiency, and other factors that impact the demand profile of the system over time. Each year the

accuracy of the regression models is reviewed against the prior winter's actual system performance to determine if significant changes in firm sales demand have occurred. If significant variations are discovered, a new demand study will be prepared to revise the accuracy of the model.

Q. How does AmerenCIPS determine the proper allocation of leased storage in its supply portfolio?

A. Based upon the demand study analysis and consideration of the operational capabilities of its on-system storage fields, AmerenCIPS selects the level of leased storage capacity required to operationally balance the highly variable firm sales loads. **_____
_____
_____
_____** When considering leased storage services, the costs of each competing company's storage tariffs are carefully analyzed. AmerenCIPS considers the cost to transport gas into and out of storage, factoring in any negotiated discounts, and the cost of carrying gas in storage as well as any applicable shrinkage factors. The Company also examines the opportunity to hedge gas prices by injecting typically low priced summer gas that is subsequently withdrawn during higher price periods. In terms of alternatives to leased storage, AmerenCIPS considers the premium that reliability and variability, both of which are extremely important to the Company, carries in physical gas supply contracts. The physical characteristics of the Company's service area determine which interstate pipelines are awarded the storage contracts.

Q. Why is leased storage important to providing high reliability?

A. Storage is the most reliable source of firm deliverability and gas supply during critical winter operations. Gas injected into storage during off-peak periods is available during peak periods with fewer weather-related concerns that impact flowing supply, such as well freeze-ups. The amount of gas that can be withdrawn from leased storage is a function of known contract provisions. AmerenCIPS can respond to changing firm sales customer requirements by varying leased storage activity and, thus can avoid costly pipeline balancing penalties. To summarize, leased storage enables daily and hourly operational balancing of system loads, avoids of costly pipeline balancing penalties, and provides hedging against market price variability.

Q. You previously testified that AmerenCIPS utilized its own on-system storage fields to supply gas to its distribution systems in 2003. Please describe those facilities and explain how they are used.

A. AmerenCIPS owns and operates three natural gas storage fields located in Illinois. These three storage facilities (Ashmore, Sciota, and Johnston City) have a combined working gas volume of **_____** MMBtu and an expected peak day deliverability of approximately **_____** MMBtu. All of AmerenCIPS' owned storage facilities are directly connected to the Company's distribution systems and require no transportation capacity on interstate pipelines for peak season deliverability. The storage fields are operated as seasonal facilities with injections typically scheduled from May through November and withdrawals scheduled from December through April. In addition, the fields enable intra-day withdrawal or injection changes since they are directly controlled by

AmerenCIPS, allowing the Company to balance gas deliveries with demand load at any hour during the gas day. The firm deliverability of the on-system storage enables AmerenCIPS to reduce the amount of interstate pipeline capacity required to meet peak day demand. An additional benefit of on-system storage is that it permits greater utilization of interstate transportation capacity during the off-peak season to transport purchased gas supply to the citygate to inject into the reservoirs.

Q. What efforts does AmerenCIPS pursue to insure optimal use of its owned storage facilities?

A. Gas Supply, Gas Storage, and Gas Control personnel frequently discuss storage plans and operations to insure the optimal use of AmerenCIPS' owned storage. Injection and withdrawal schedules are developed to operate the storage facilities in a way to provide adequate reliability while minimizing the overall cost of gas and to protect the integrity of the reservoir. In setting these schedules, the Company relies on operational experience, historical performance data, and its models to insure that maximum productivity is achieved from its storage fields.

Q. Ms. Heins, were any other on system supply sources available to AmerenCIPS during 2003?

A. Yes, AmerenCIPS maintains a propane-air blending plant in Quincy with an operational capacity of approximately **_____** MMBtu per day. This plant only operated for normal testing during the reconciliation period.

Q. Please briefly describe AmerenCIPS' general price hedging strategy.

A. As I previously mentioned, **_____
_____

[redacted]**

Q. What is the purpose of implementing a price hedging strategy?

A. The primary purpose of hedging is to reduce exposure to the volatility and uncertainty of natural gas market prices in a future period. When a hedge is put in

place, the Company is establishing a future position in the gas market. This position may end up below or above the market price of gas that ultimately occurs during that future period. The purpose of the position is to reduce or eliminate exposure to future market conditions that are unknown and uncertain when the hedge is originally put in place. Thus, hedges are used to reduce price volatility and are not intended to "beat the market" or create low gas prices.

Q. Ms. Heins, is the gas supply activity for AmerenCIPS limited by a corporate risk management policy?

A. Yes. Ameren has instituted risk management policies to monitor and govern all energy commodities trading within the corporation for electricity, coal, natural gas, oil, and emissions credits. All natural gas transactions for the three Ameren gas utilities are subject to the AFS Risk Management Policy.

Q. Would you please elaborate how the AFS Risk Management Policy affects natural gas supply procurement?

A. The purpose of the policy is to provide the structure, processes, and systems to monitor all natural gas transactions as they are completed and to provide guidelines and limits to the scope and type of allowable natural gas transactions. The policy for the Ameren gas utilities parallels the strategies that I have outlined thus far in my testimony, but creates upper and lower limits that bound these strategies. The gas utility supply portfolio strategy is intended to manage natural gas purchase price, volumetric, and counter-party risks for the gas supplies required for the three Ameren gas utilities. Because the utilities are naturally short supply, this strategy helps to reduce the impact of volatile gas prices on the utility customers by levelizing the PGA from season to season. It should also be

noted that the utility's goal of exchanging price certainty for price variability is not intended to reduce gas costs to the utility's customers. "Beating the market" is not (and should never be) the object of a successful hedging strategy for a utility. Managing price volatility (or dampening price swings) is the primary goal of the gas supply strategy which has also been incorporated into the AFS Risk Management Policy.

**_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

NP

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____**

Q. What type of price forecasts does AmerenCIPS employ for its **_____ _____ gas supply purchasing and hedging horizon?**

A. Since natural gas futures are actively traded on the NYMEX for seventy-two consecutive months, much of the underlying price forecast assumptions are derived using the current NYMEX forward strip activity. AmerenCIPS also reviews the price trend studies and information provided by Risk Management Inc., an outside energy consulting firm. **_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____**

Q. Did the Company meet its volumetric and price hedging targets during the reconciliation period?

A. During the first half of 2003, the Company was transitioning its portfolio to meet the parameters set out in the AFS Risk Management Policy with the goal of being in complete compliance by November 1, 2003. The attached tables, Schedule JJH-CIP-2, Schedule JJH-CIP-3, and Schedule JJH-CIP-4, reflect AmerenCIPS' compliance with the AFS Risk Management Policy volumetric and price hedge targets as of November 1, 2003.

Q. Can you please describe the process that AmerenCIPS utilizes to purchase reliable natural gas supply at a reasonable cost?

A. AmerenCIPS purchases the majority of its firm gas supply from independent and major producers who own natural gas reserves, operate physical gas production facilities, and have proper credit. The Company is concerned that marketing companies that have no production and only provide brokering services are not as reliable as companies that own and control gas production or companies that have contracted access to gas production. The Company also seeks to attain geographic diversity in its purchased gas supply sources so that supplies are

purchased from multiple producing areas such as the Texas and Oklahoma Panhandles, the Colorado Rocky Mountains, Canada, the Gulf Coast, and South Texas and Louisiana.

To determine an optimal group of firm suppliers, the Company requests bids on gas supply packages from a proven group of suppliers with acceptable credit resources. Bids for supply packages are usually priced using either published indices such as Inside FERC Gas Market Report or NYMEX. Selection of bid packages from among suppliers is not based solely on the lowest cost but also on the level of flexibility provided by the supplier and the supplier's strength in a certain geographic area. AmerenCIPS also makes an effort to balance supply packages among its suppliers to insure that its portfolio is not too heavily weighted with supplies provided by one supplier. The firm physical supply transactions are contracted utilizing either an Ameren Master Agreement or a North American Energy Standards Board (NAESB) Agreement.

Q. Does AmerenCIPS purchase gas supplies on the daily and monthly spot market?

A. Yes. Monthly spot purchases usually occur in the summer to fill in storage injection requirements. The monthly spot purchases are made using a bid solicitation with the winning bid being the one with the lowest reasonable cost. Daily spot purchases are made to meet unanticipated daily needs or to take advantage of a daily price drop for storage injections. Price quotes are obtained for daily spot purchases using Intercontinental Exchange (ICE), an electronic trading platform, and soliciting quotes by telephone from suppliers. Daily indices

are also tracked in industry publications such as Platt's Gas Daily and NGI's Daily Gas Price Index.

Q. Were the firm gas supplies acquired by AmerenCIPS generally available during the peak seasons in the reconciliation period and on peak days experienced by the Company?

A. Yes. **_____

_____

_____

_____

_____

_____** The Company managed these losses of supplies by increasing storage withdrawals. There were no curtailments of AmerenCIPS' firm sales services due to these losses of supply.

Q. What steps does the Company take on peak days when the daily demand level exceeds the supply available?

A. If daily demand exceeds scheduled gas supply, assuming there is still available pipeline capacity, any available "No-Notice" storage withdrawals would first be utilized to meet demand. When maximum "No-Notice" storage withdrawals are fully utilized, then on-system storage withdrawals would be increased as required to cover unmet demand. If demand continued to be in excess of all flowing supplies and storage withdrawals, then AmerenCIPS would nominate and schedule any unutilized and available firm swing gas supplies and pipeline capacity. At this point, all available firm contracted interstate pipeline resources

and on-system storage resources would be maximized. The Company would then investigate the availability of any additional capacity and/or supplies. If none were available, then curtailment of all interruptible services would be declared on the AmerenCIPS distribution systems. In addition, transportation customers would not be allowed to withdraw from their imbalance banks with the Company. Finally, the propane-air plant would be operated.

Q. What was the Company's peak day in 2003?

A. **_____

_____

_____**

Q. What sources of supply were used to meet the sales demand on this peak day?

A. **_____

_____

_____

_____

_____**

Q. Was it necessary to curtail interruptible customers or utilize the propane plant during 2003?

A. No.

Q. Does AmerenCIPS have procedures for monitoring the delivery of natural gas from its interstate pipeline suppliers?

A. Yes, it does. The Company monitors and records gas flow volumes from a majority of the delivery points with the interstate pipelines. The facilities where

AmerenCIPS' distribution systems interconnect with the interstate pipelines are referred to as M/R (Metering and Regulation) Stations or Citygate Stations where the interstate pipelines perform pressure reduction and transfer custody measurement. Most M/R stations utilize orifice meters as the primary metering devices which are integrated on-site with electronic flow computers. The electronic flow computer data is telemetered from the M/R stations to Ameren Services' Gas Operations office in Springfield, Illinois. On a routine basis, AmerenCIPS compares its delivery volumes to the pipeline metering statements to detect errors or deviations. The Company may also make arrangements to be present during calibration and inspection of measurement equipment by the interstate pipelines.

Q. Were the Company's gas purchases during the year consistent with its procurement policies?

A. Yes, AmerenCIPS utilized the most economical mix of gas sources available under the given conditions.

Q. Do you believe AmerenCIPS' procurement of natural gas was prudent during 2003?

A. Yes, I do.

Q. Does this complete your testimony?

A. Yes, it does.

SCHEDULES
JJH-CIP-1, JJH-CIP-2, JJH-CIP-3, JJH-CIP-4

ARE

HIGHLY CONFIDENTIAL

IN THEIR ENTIRETY